

TOWN OF BERLIN, MARYLAND

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

TOWN OF BERLIN, MARYLAND

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Council
Town of Berlin, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Berlin, Maryland management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2011 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and page 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic

financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PKS + Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

October 24, 2011

TOWN OF BERLIN, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

This section of the Town of Berlin, Maryland's (the "Town") annual report presents our discussion and analysis of the Town's financial performance during the fiscal year that ended on June 30, 2011. Please read it in conjunction with the Town's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four financial parts – *management's discussion and analysis* (this section), the *basic financial statements, required supplementary information*, and an optional section that presents schedules of revenues and expenses. The basic financial statements include two kinds of statements that present different views of the Town:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the Town's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Town, reporting the Town's operations in more detail than the Government-wide financial statements.
 - The *governmental funds* statements tell how general government services like general government, public safety, public works, parks, recreation, culture, and community development were financed in the *short term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates *like businesses*, such as the electric department and the water and sewer system.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. In addition to these required elements, we have included schedules of selected revenues and expenditures.

Government-wide financial statements

The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Town's *net assets* and how they have changed. Net assets – the difference between the Town's assets and liabilities – is one way to measure the Town's financial health, or position. Over time, increases or decreases in the Town's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Town you need to consider additional nonfinancial factors such as changes in the property tax base and the condition of the Town's roads and electric, water, and sewer systems.

The government-wide financial statements are divided into two categories:

- *Governmental activities* – Most of the Town's basic services are included here, such as the legislative and executive government, finance administration, police, fire, public works, parks, and community development. Property taxes and state and federal grants finance most of these activities.

- *Business-type activities* – The Town charges fees to customers to help it cover the costs of certain services it provides. The Town's electric, water and sewer departments are included here.

Fund financial statements

The fund financial statements provide more detailed information about the Town's most significant *funds* – not the Town as a whole. Funds are accounting devices that the Town uses to keep track of specific sources of funding and spending for particular purposes. The Town has two kinds of funds:

- *Governmental funds* – Most of the Town's basic services are included in governmental funds which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Proprietary funds* – Services for which the Town charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide financial statements, provide both long- and short-term financial information. In fact, the Town's *enterprise funds* are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town's combined net assets at June 30, 2011 were \$26,364,000. Of this total, \$18,760,000 is invested in capital assets and \$1,278,000 is restricted which leaves an unrestricted balance of \$6,367,000. The Town's net assets increased \$4,752,000 or 22% over last year. The tables below show key financial information in a condensed format for the current year.

Table 1
Town of Berlin, Maryland's Net Assets
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 7,805	\$ 7,536	\$ 1,999	\$ 3,823	\$ 9,804	\$ 11,359
Capital assets	4,822	3,654	33,415	26,026	38,237	29,680
Total assets	<u>12,627</u>	<u>11,190</u>	<u>35,414</u>	<u>29,849</u>	<u>48,041</u>	<u>41,039</u>
Long-term liabilities	2,146	1,373	17,075	11,274	19,221	12,647
Other liabilities	242	335	2,214	6,445	2,456	6,780
Total liabilities	<u>2,388</u>	<u>1,708</u>	<u>19,289</u>	<u>17,719</u>	<u>21,677</u>	<u>19,427</u>
Net assets						
Invested in capital assets, net of related debt	2,825	2,408	15,935	13,185	18,760	15,593
Restricted	423	348	901	837	1,324	1,185
Unrestricted	6,991	6,726	(711)	(1,892)	6,280	4,834
Total net assets	<u>\$ 10,239</u>	<u>\$ 9,482</u>	<u>\$ 16,125</u>	<u>\$ 12,130</u>	<u>\$ 26,364</u>	<u>\$ 21,612</u>

Table 2 and the narrative that follows consider the operations of governmental and business-type activities separately.

Table 2
Changes in Town of Berlin, Maryland's Net Assets
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		{
	2011	2010	2011	2010	2011	2010	
Revenues							
Program services							
Charges for services	\$ 367	\$ 150	\$ 8,563	\$ 8,578	\$ 8,930	\$ 8,728	
Operating grants and contributions	93	115			93	115	
Capital grants and contributions	330	22	4,478	1,916	4,808	1,938	
General revenues							-
Property taxes	3,272	3,403			3,272	3,403	
Other taxes and fees	364	345			364	345	
Unrestricted grants	400	400			400	400	
Overhead allocation	511	511	(511)	(511)	-	-	
Other	17		1	(672)	1	(655)	
Total revenues	<u>5,337</u>	<u>4,963</u>	<u>12,531</u>	<u>9,311</u>	<u>17,868</u>	<u>14,274</u>	
Expenses							
General government	1,171	1,554			1,171	1,554	
Public Safety	1,934	1,573			1,934	1,573	
Public Works	989	1,067			989	1,067	
Planning and community developmt	327	148			327	148	
Recreation and parks	84	72			84	72	
Interest on long-term debt	74	14			74	14	
Electric			6,141	5,983	6,141	5,983	
Water			610	686	610	686	
Sewer			1,786	2,097	1,786	2,097	
Total expenses	<u>4,579</u>	<u>4,428</u>	<u>8,537</u>	<u>8,766</u>	<u>13,116</u>	<u>13,194</u>	
Excess (deficiency) before transfers	758	535	3,994	545	4,752	1,080	
Transfers		<u>(1,373)</u>		<u>1,373</u>			
Change in net assets	<u>\$ 758</u>	<u>\$ (838)</u>	<u>\$ 3,994</u>	<u>\$ 1,918</u>	<u>\$ 4,752</u>	<u>\$ 1,080</u>	

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Excess (deficiency) before transfers	758	535	3,994	545	4,752	1,080
Transfers		<u>(1,373)</u>		<u>1,373</u>		
Change in net assets	<u>\$ 758</u>	<u>\$ (838)</u>	<u>\$ 3,994</u>	<u>\$ 1,918</u>	<u>\$ 4,752</u>	<u>\$ 1,080</u>

Governmental activities

Net assets for the Town's governmental activities increased \$758,000 during the fiscal year. The primary reasons for this increase mirror those highlighted in the following analysis of the Governmental Funds.

Business-type activities

During the fiscal year, the Town's net assets for business-type activities increased \$3,994,000. Because the change in net assets for the Enterprise Funds is an aggregate, for purposes of this management discussion and analysis, Electric, Water, and Sewer funds will be addressed individually below.

The Electric Fund had an operating income of \$566,000 and a total increase in net assets of \$157,000 compared to net increase of \$366,000 last year.

In August 2009 and continuing through June 30, 2011, the Town retained Booth & Associates to assist in evaluating the needs at the electric department, both operationally and financially. Operation recommendations covered the power plant and distribution system facilities, equipment, vehicles, and staffing. The financial recommendations addressed three major areas: base rates, power cost adjustment, and power use management.

Revenues were down 1% from last year primarily from the Town entering into a new purchase power agreement effective June 1, 2010. This new agreement helped to reduce the PCA Rate.. It should be noted that revenues in a given fiscal year are not a true representation of kilowatts sold in that same fiscal year because you are always recovering power costs from prior years.

Operating expenses were up from last year by \$185,000 or 3% primarily due to increases in supplies and operating expenses, contract services. Purchased power increased 4%. Purchased power is the wholesale price of electric power that is resold to ratepayers through a Power Cost Adjustment (PCA) factor. Wholesale power is forecast for a twelve month period and then adjusted to the actual number in December of each year known as the Actual Cost Adjustment ("ACA").

The Water Fund had an operating loss of \$36,000 and a total decrease in net assets of \$4,000 compared to a net increase last year of \$1,238,000. The increase in net assets in the prior year includes a transfer from the general fund of \$1,373,000 to the water fund. Revenues increased \$62,000 over last year with a \$77,000 decrease in expenses due mainly to decreases in payroll and related costs, professional services, contracted services and insurance.

Water rates have been increased 7% starting January 1, 2011.

The Sewer fund had an operating loss of \$402,000 and a total increase in net assets of \$3,841,000 compared to an increase in net assets last year of \$313,000. Total revenues decreased \$31,000 due to decreases in sales and materials for new services and hauler fees. The wastewater treatment plant upgrade project prevented any outside haulers for part of the year. Capital grants of \$4,319,000 were received for the wastewater treatment plant project in 2011 compared to \$1,784,100 received in 2010.

Operating expenses decreased \$325,000 due to decreases in supplies and operating expenses, professional and contract services, insurance and repairs and maintenance related to the wastewater treatment plant upgrade and lagoon liner projects.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As of June 30, 2011, the Town's governmental funds reported a combined fund balance of \$7,324,000. This is a \$251,000 increase in fund balance compared to an \$837,000 decrease last year. The primary reasons for the increase include:

Revenues increased from the prior year by \$314,000 or 6%. The primary reason for the increase was an increase in intergovernmental revenues. In addition, service charges, interest, and impact fees decreased.

Along with the increase in revenues, the Town experienced an increase in expenditures of 7%. The most significant changes occurred in the following areas:

- General government increased \$54,000 due to increases in health insurance, retirement, contract services, and employee training.
- Public works decreased \$128,000 due to decreases in supplies and operations, insurance and contract services.
- Capital outlay increased \$271,000 due to the land purchase for future police department and community center.
- Debt service costs increased \$115,000 due to the new land purchase.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Town Council revised the budget due to anticipated interest costs related to the purchase of land for a future Police department and Community Center. Budgeted revenues and expenses were increased as follows:

• Prior year surplus revenue	\$ 38,000
• Debt service expenditures	\$ 38,000
• Loan proceeds	\$ 828,530
• Land acquisition costs	\$ 823,530

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital assets

At the end of the fiscal year, The Town had \$38,237,000, net of accumulated depreciation, invested in a broad range of capital assets.

Table 3
Town of Berlin, Maryland's Net Capital Assets
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,783	\$ 618	\$ 3,882	\$ 1,633	\$ 5,665	\$ 2,251
Infrastructure	3,248	2,110	36,214	34,114	39,462	36,224
Buildings and improvements	865	749	650	650	1,515	1,399
Equipment	862	791	3,094	2,760	3,956	3,551
Vehicles	1,252	1,320	997	962	2,249	2,282
Construction in progress	-	948	13,331	8,995	13,331	9,943
Less: accumulated depreciation	(3,188)	(2,882)	(24,753)	(23,088)	(27,941)	(25,970)
Total	<u>\$ 4,822</u>	<u>\$ 3,654</u>	<u>\$ 33,415</u>	<u>\$ 26,026</u>	<u>\$ 38,237</u>	<u>\$ 29,680</u>

This year's major capital asset additions included:

Governmental activities

- Land purchase for police station and community center
- Property purchase for welcome center and Chamber of Commerce
- Completion of street improvement project
- Sidewalk project
- Server and utility billing software
- Two police vehicles
- Various equipment

Business-type activities

- Truck mounted sewer TV inspection system
- Furniture and office equipment for wastewater treatment plant
- Pickup truck
- Various maintenance and computer equipment
- Land purchased for spray site
- Completion of lagoon project
- Construction in progress for the wastewater treatment plant and phase I and II of spray irrigation project

Long-term debt

At the end of the fiscal year, the Town had \$19,647,000 in general obligation bonds payable.

Table 4
Town of Berlin, Maryland's Outstanding Debt
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2011	2010	2011	2010	2011	2010	
General obligation bonds	\$ 1,997	\$ 1,246	\$ 17,650	\$ 14,875	\$ 19,647	\$ 16,121	22%
Total	<u>\$ 1,997</u>	<u>\$ 1,246</u>	<u>\$ 17,650</u>	<u>\$ 14,875</u>	<u>\$ 19,647</u>	<u>\$ 16,121</u>	22%

New debt was issued during the fiscal year for the purchase of the property for the police station and community center and costs for the wastewater treatment plan.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Town is currently building a new wastewater treatment plant to comply with environmental regulations and to ensure that the Town is prepared for expected growth and development. The project is estimated to cost \$16 million and is being funded by a \$6 million U. S. Department of Agriculture low-interest loan, a \$5.8 million U. S. Department of Agriculture grant, a \$1.5 million grant from the Maryland Department of the Environment, a \$700,000 CDBG grant and \$2 million from the Town. At June 30, 2011, approximately 92% of the project was complete.

The Town is taking all reasonable measures to monitor and control expenditures.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Town of Berlin, Maryland, 10 William Street, Berlin, Maryland 21811.

TOWN OF BERLIN, MARYLAND

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash	\$ 465,909	\$ 150,545	\$ 616,454
Pooled cash and investments	4,342,174	381,678	4,723,852
Taxes receivable	303,123		303,123
Accounts receivable, net	163,170	1,451,082	1,614,252
Internal balances	1,827,518	(1,827,518)	
Due from other governments	275,133	561,834	836,967
Prepaid expenses	5,000		5,000
Inventories		153,777	153,777
Total current assets	<u>7,382,027</u>	<u>871,398</u>	<u>8,253,425</u>
Noncurrent assets			
Restricted cash	422,911	901,417	1,324,328
Deferred charges, net of accumulated amortization		226,598	226,598
Capital assets, net of accumulated depreciation	<u>4,821,720</u>	<u>33,414,998</u>	<u>38,236,718</u>
Total noncurrent assets	<u>5,244,631</u>	<u>34,543,013</u>	<u>39,787,644</u>
Total assets	<u>12,626,658</u>	<u>35,414,411</u>	<u>48,041,069</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	190,321	1,239,533	1,429,854
Accrued compensated absences	17,276	19,160	36,436
Accrued interest payable	6,371	87,582	93,953
Customer deposits		98,630	98,630
Current portion of long-term debt	7,122	636,606	643,728
Deferred revenue	20,821	133,100	153,921
Total current liabilities	<u>241,911</u>	<u>2,214,611</u>	<u>2,456,522</u>
Noncurrent liabilities			
Bonds payable	1,990,072	17,013,698	19,003,770
Accrued compensated absences	155,481	61,088	216,569
Total noncurrent liabilities	<u>2,145,553</u>	<u>17,074,786</u>	<u>19,220,339</u>
Total liabilities	<u>2,387,464</u>	<u>19,289,397</u>	<u>21,676,861</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,824,526	15,935,199	18,759,725
Restricted	422,911	901,417	1,324,328
Unrestricted	6,991,757	(711,602)	6,280,155
Total net assets	<u>\$ 10,239,194</u>	<u>\$ 16,125,014</u>	<u>\$ 26,364,208</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF BERLIN, MARYLAND
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

Net (Expense) Revenue and Changes in Net Assets							
	Program Revenues			Business-type Activities			Total
	Operating Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities		
Functions/Programs							
Governmental activities							
General government	\$ 1,171,225	\$ 310,577	\$ 65,014	\$ 4,000	\$ (856,648)	\$ (856,648)	
Public safety	1,933,310	11,898	27,803		(1,856,398)	(1,856,398)	
Public works	989,015	7,283			(953,929)	(953,929)	
Planning and economic development	327,232	37,689		325,853	36,310	36,310	
Recreation and parks	84,114				(84,114)	(84,114)	
Interest on long-term debt	73,920				(73,920)	(73,920)	
Total governmental activities	<u>4,578,816</u>	<u>367,447</u>	<u>92,817</u>	<u>329,853</u>	<u>(3,788,699)</u>	<u>(3,788,699)</u>	
Business-type activities							
Electric	6,140,842	6,585,844			445,002	445,002	
Water	609,980	636,054			68,112	68,112	
Sewer	1,786,068	1,341,259			3,991,000	3,991,000	
Total business-type activities	<u>8,336,890</u>	<u>8,563,157</u>	<u>4,477,847</u>	<u></u>	<u>4,504,114</u>	<u>4,504,114</u>	
Total	<u><u>\$ 13,115,706</u></u>	<u><u>\$ 8,920,604</u></u>	<u><u>\$ 92,817</u></u>	<u><u>\$ 4,807,700</u></u>	<u><u>(3,788,699)</u></u>	<u><u>4,504,114</u></u>	<u><u>715,415</u></u>
General revenues							
Taxes							
Property taxes					3,272,498	3,272,498	
Public service taxes					44,417	44,417	
State income taxes					246,464	246,464	
Franchise fees					72,665	72,665	
Grants and contributions not restricted to specific programs					400,000	400,000	
Unrestricted investment earnings					2,355	2,355	
Overhead allocation					510,823	510,823	
Special item - Loss on disposal of assets					(2,995)	(2,995)	
Total general revenues and special items					4,546,227	4,546,227	
Change in net assets					757,528	757,528	
Net assets at beginning of year					9,481,666	9,481,666	
Net assets, end of year					<u><u>\$ 10,239,194</u></u>	<u><u>\$ 16,125,014</u></u>	<u><u>\$ 26,364,208</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF BERLIN, MARYLAND

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2011

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 445,273	\$ 20,636	\$ 465,909
Pooled cash and investments	4,342,174		4,342,174
Taxes receivable	303,123		303,123
Accounts and notes receivable, net	163,170		163,170
Due from other governments	267,503	7,630	275,133
Due from other funds	1,835,573		1,835,573
Prepaid expenses	5,000		5,000
Restricted cash	422,911		422,911
Total assets	\$ 7,784,727	\$ 28,266	\$ 7,812,993
LIABILITIES AND FUND BALANCES (DEFICITS)			
Liabilities			
Accounts payable	\$ 95,935	\$	\$ 95,935
Accrued expenses	116,874	1,158	118,032
Due to other funds		8,055	8,055
Deferred revenue	246,671	20,636	267,307
Total liabilities	459,480	29,849	489,329
Fund balances (deficits)			
Nonspendable	5,000		5,000
Restricted	71,271		71,271
Committed	351,640		351,640
Assigned	319,648		319,648
Unassigned	6,577,688	(1,583)	6,576,105
Total fund balances (deficits)	7,325,247	(1,583)	7,323,664
Total liabilities and fund balances (deficits)	\$ 7,784,727	\$ 28,266	\$ 7,812,993

The accompanying notes are an integral part of these financial statements.

		Total fund balances, governmental funds
\$ 7,323,664		
		Amounts reported for governmental activities in the statement of net assets are different because:
4,821,720		Capital assets used in governmental activities are not financial resources and are therefore not reported in the fund financial statements, but are reported in the government activities of the Statement of Net Assets.
246,486		Certain revenues that do not provide current financial resources are reported as deferred income in the fund financial statements, but are revenue in the government activities of the Statement of Net Assets.
(2,152,676)		Some liabilities including notes payable, and accrued compensation are not due and payable in the current period and therefore are not reported in the fund financial statements, but are included in the governmental activities in the Statement of Net Assets.
\$ 10,239,194		Net assets of government activities in the Statement of Net Assets

JUNE 30, 2011

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

TOWN OF BERLIN, MARYLAND

YEAR ENDED JUNE 30, 2011

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

TOWN OF BERLIN, MARYLAND

	Total Revenues	General Revenue	Special Revenue	Fund Revenue	Total Governmental Funds	General Fund	Special Fund	Fund Funds	General Funds	Total Revenues	Current Expenditures	General Government	Public safety	Public works	Planning and economic development	Recreation and parks	Debt service	Capital outlay	Total expenditures	Excess of expenditures over revenues	Other financing sources	Proceeds from issuance of long term debt	Total other financing sources	Net change in fund balances	Fund balances, beginning of year	Fund balances (deficits), end of year
Licenses and permits	\$ 177,090	1,004,045	33,607	1,037,652	\$ 3,459,781	\$ 3,459,781				\$ 3,206,876	33,607	\$ 5,240,483	Miscellaneous													
Service charges	537,728					2,355	21,877																			
Impact fees	177,090					4,000																				
Barriers on investments	537,728						2,355																			
Impacted fees								21,877																		
Intergovernmental revenues	177,090	1,004,045	33,607	1,037,652																						
Taxes																										
General government	1,088,468	1,841,985	36,254	1,878,239																						
Public safety																										
Public works																										
Planning and economic development																										
Recreation and parks																										
Debt service																										
Capital outlay																										
Total expenditures																										
Excess of expenditures over revenues																										
Other financing sources																										
Proceeds from issuance of long term debt																										
Total other financing sources																										
Net change in fund balances																										
Fund balances, beginning of year																										
Fund balances (deficits), end of year																										

The accompanying notes are an integral part of these financial statements.

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The accompanying notes are an integral part of these financial statements.

		Net change in fund balances, governmental funds
\$ 251,230		Amounts reported for government activities in the statement of activities are different because:
		Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation (\$1,596,716) exceeded depreciation (\$421,352) in the current period.
1,175,364		In the Statement of Activities, the gain or loss on the disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by the book value of the assets sold.
(7,736)		Some expenses reported in the statements of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:
7,188		Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned:
(20,528)		Change in long-term compensated absences
		Governmental funds do not report loan proceeds as a revenue. In contrast, the Statement of Activities treats such proceeds as an increase in long-term liabilities.
103,598		Change in deferred revenue
		Governmental funds report repayment of debt principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.
(828,530)		Change in net assets of governmental activities
		Governmental funds report long-term liabilities.

YEAR ENDED JUNE 30, 2011

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

TOWN OF BERLIN, MARYLAND

JUNE 30, 2011

STATEMENT OF NET ASSETS PROPRIETARY FUNDS

TOWN OF BERLIN, MARYLAND

YEAR ENDED JUNE 30, 2011

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

TOWN OF BERLIN, MARYLAND

PROPRIETARY FUNDS

	Electric Fund	Water Fund	Sewer Fund	Total
Revenues	\$ 6,502,860	\$ 582,548	\$ 1,289,080	\$ 8,374,488
Service charges	37,162	6,857	4,243	48,262
Sales and services	1,455,250	1,459,059	294,820	538,315
Personnel expenses	622,115	354,878	136,647	233,677
Supplies and operating expenses	354,878	109,180	8,356	178,891
Professional services	109,615	109,615	435	205,106
Contracted services	20,465	2,634	5,578	28,677
Insurance	6,478	9,046	25,550	41,074
Depreciation and amortization	798,861	140,479	771,545	1,710,885
General overhead	280,411	80,206	150,206	510,823
Operating income (loss)	565,506	(36,134)	(401,906)	127,466
Nonoperating revenues (expenses)	4,319,330	8,462	(17,998)	(400,915)
Interest income	8,462	8,462	(17,998)	(7,166)
Interest expense	4,319,330	4,319,330	(193,109)	(612,022)
Net nonoperating revenues (expenses)	(408,081)	(9,536)	4,126,221	3,708,604
Income (loss) before contributions - special contribution fees	157,425	(45,670)	3,724,315	3,836,070
Income (loss) before contributions - special contribution fees	157,425	42,038	116,479	158,517
Change in net assets	157,425	(3,632)	3,840,794	3,994,587
Net assets at beginning of year	505,214	2,365,067	9,260,146	12,130,427
Net assets at end of year	\$ 662,639	\$ 2,361,435	\$ 13,100,940	\$ 16,125,014

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS TOWN OF BERLIN, MARYLAND

The accompanying notes are an integral part of these financial statements.

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including all taxes, are presented as general revenues. Capital requirements of a particular program. Revenues that are not classified as program revenues, offered by the programs and (b) grants and contributions that are restricted to meeting the operational or program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the Town and (b) grants and contributions that are restricted to meeting the operational or program revenues.

The statement of activities presents a comparison between direct expenses and revenues for the different business-type activities of the Town and for each function of the Town's government and, therefore, are clearly identifiable to a particular function.

Government-wide financial statements - The statement of net assets and the statement of activities display information about the Town. These statements include the financial activities of the Town, Governmental activities financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

Based on the above criteria as set forth by the GASB, the Town of Berlin, Maryland has no component units. Based on the above criteria as set forth by the GASB, the Town of Berlin, Maryland has no government-wide financial reporting entity over such units by the Town's elected officials and the scope of public services as it pertains to the activities benefiting the residents within the geographic boundaries of the Town. Overight responsibility enables such factors as financial interdependence, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

The accompanying financial statements of the Town of Berlin, Maryland generally acceptably prepared in conformance with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing government accounting and financial reporting principles. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent they do not conflict or contradict guidance of the GASB.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND REPORTING ENTITY

JUNE 30, 2011

NOTES TO FINANCIAL STATEMENTS

TOWN OF BERLIN, MARYLAND

The government funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable revenues are collected within sixty days after end. Property taxes, charges for services, and interest received to be susceptible to accrual. Expenses are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenses in governmental funds. Proceeds of long-term debt and capital acquisitions under capital leases are reported as other financing sources.

The government funds have been satisfied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all the revenue bases, property taxes is recognized in the fiscal year for which taxes are levied. Accrual value in exchange, include property taxes, grants, entitlements, and donations. On the giving) equal value in which the Town gives (or receives) value without directly receiving (or nonexchange transactions, in which the related cash flows take place. Recorded at the time liabilities are incurred, regardless of when the related cash flows are recorded at the time of accounting, revenues are recorded when earned and expenses are accounted for in another fund.

Measurement Focus, Basis of Accounting

The Town reports the following major government fund: special revenue fund. This fund accounts for state and federal grants with specific compliance restrictions.

The Town reports the following major enterprise funds: electric, water and sewer. These funds account for the operation and management of the electric, water, and sewer departments.

The Town reports the following major government fund: general fund. This is the primary operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

The Town reports the following major government fund: general fund. This is the primary investment earnings, result from nonexchange transactions.

Fund financial statements - The fund financial statements provide information about the Town's separate columns. Any remaining government and enterprise funds are aggregated and reported as nonmajor funds.

Basis of Presentation (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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method. Inventories of supplies are stated at cost at year-end as determined by the first-in, first-out method. Inventories are charged to expense when consumed, rather than when purchased or donated.

Inventories

Fund was \$75,935. Fund was \$31,730 and the Enterprise to be collected. At June 30, 2011, the allowance in the General Fund was \$31,730 and individual accounts not likely miscellaneous accounts receivable based upon the Town's determination of individual accounts and provision is made for estimated uncollectible electric, water and sewer charges and escrow deposits.

Allotment for Uncollectible Accounts

escrow deposits. Restricted cash in the general fund consists of impact fees set aside for future capital projects and slots revenue restricted by the State of Maryland. Restricted cash in the enterprise funds consists of special connection charges restricted for water and sewer capital and related financing activities and EDU

Restricted Cash

cash flow statement. The Town treats certificates of deposit with original maturities of 90 days or less and investments in repurchase agreements with short-term maturities as cash equivalents for purposes of preparing the

Cash Equivalents

- No budget is recorded for depreciation expense.
- Principal payments on long-term debt and capital outlay expenses are reported as a funding use.
- Loans and transfers from other funds are reported as funding sources.

The Town prepares its annual budget on a basis (budgetary basis) that differs from generally accepted accounting principles for proprietary funds (GAP basis). The major differences between the budgetary basis and the GAP basis are:

The general fund budget is adopted on a basis consistent with generally accepted accounting principles for government funds. No budget is adopted or required for the special revenue fund.

The Town's budget begins July 1 of each year. By Town Ordinance, the Council must appropriate a budget for the succeeding year by June 30 after holding at least two public hearings. Appropriations lapse at year-end unless otherwise provided. Expenditures in excess of amounts appropriated for or transferred to a general classification of expenditures in the budget by the Town's charter. Budget amendments can be made during the year, but must be approved by the Mayor and Council. Appropriations from prior year fund balance are recorded as other financing sources for budgetary purposes.

Budgetary Data

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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BASIS OF PRESENTATION AND

JUNE 30, 2011

NOTES TO FINANCIAL STATEMENTS

TOWN OF BERLIN, MARYLAND

Deferred charges represent bond issuance costs and consulting fees which have been capitalized and amortized over the terms of the respective bonds, using the straight-line method. Also, certain long-term deregulation costs, wholesale power supply negotiation cost and other costs have been capitalized and are being amortized over lives ranging from 5 - 10 years.

Deferred Charges

Asset Class	Estimated Useful Lives	Lives:
Infrastructure	20 - 50 years	
Buildings and improvements	20 - 40 years	
Machinery and equipment	5 - 10 years	
Transportation equipment	5 - 15 years	

Capital assets are depreciated using the straight-line method over the following estimated useful lives:
 Fixed assets are recorded at their estimated fair value at the date of donation. General infrastructure purchased or constructed capital assets are reported at cost or estimated historical cost. Donated maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.
 After June 30, 2000 are capitalized in the government-wide financial statements. The cost of normal assets, such as streets, curbs, gutters, storm drains, traffic lighting systems and similar assets, acquired in the January 1 preceding the fiscal year which begins July 1. The taxes are levied July 1 of each year and are due October 1 with penalties charged on payments not received by October 1.

Capital Assets

Real and personal property taxes are calculated based on the assessable basis of the property as of the January 1 preceding the fiscal year which begins July 1. The taxes are levied July 1 of each year and are due October 1 with penalties charged on payments not received by October 1.

Property Taxes

Deferred revenue in the general fund represents grants proceeds that have been received but not spent. Property taxes not collected within sixty days following the end of the year are considered not available to pay liabilities that are owed at the balance sheet date and therefore are reported as deferred revenue. Deferred revenue in the proprietary funds represents grants that have been received but not spent, and the "available" criteria for recognition in the current period. For the government funds statements, and the "available" criterion in the current period. For the government funds statements, and the "available" criterion in the general fund arises when a revenue does not meet both the "measurable"

Deferred Revenue

BASIS OF PRESENTATION AND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

}

JUNE 30, 2011

NOTES TO FINANCIAL STATEMENTS

TOWN OF BERLIN, MARYLAND

authority.

Committed Fund balance - amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making

Restricted Fund balance - amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.

Nonspendable Fund balance - amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.

In the governmental Fund financial statements, Fund balances are classified as follows:

Governmental Fund Balances

Town's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. When an expense is incurred that can be paid using either restricted or unrestricted net assets, the

Unrestricted - all other net assets are reported in this category.

Restricted - consists of net assets that are restricted by enabling legislation. In the government activities, this amount represents impact fees that are restricted for use on future capital projects and slots revenue that is restricted by the State of Maryland. In for water and sewer capital and related financing activities and EDD escrow deposits, the business-type activities, this amount represents special collection charges restricted for water and sewer capital and related debt.

Invested in Capital Assets, net of related debt - consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

Government-Wide and Proprietary Fund Net Assets
Interest earned that is attributable to the special connection fees is reported in the Water and Sewer funds. Interest for payment of debt service costs and capital improvements to the water and sewer plants, assessed on capital contributions in the water and sewer funds consist of special connection fees that were

Capital Contributions - Enterprise Funds

The Town accrues a liability in the governmental-wide and proprietary fund statements for certain compensated absences (vacation and compensatory time) that have been earned but not yet paid. Sick pay, which is earned but not payable at separation, is not included.

Accrued Comprehended Absences

BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

JUNE 30, 2011

NOTES TO FINANCIAL STATEMENTS

TOWN OF BERLIN, MARYLAND

TOWN OF BERLIN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
BASIS OF PRESENTATION AND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Town maintains a cash and investment pool that is available for use by all funds. In addition, cash is separately held by several of the Town's funds. Total cash and investments includes:

		Total
Cash	\$ 1,057,129	\$ 6,664,634
Repurchase agreements	\$ 5,607,505	

DEPOSITS AND INVESTMENTS

In governmental funds, the Town's policy is to first apply the expenditure toward restricted fund balance and then to other, less restrictive classifications (committed and then assigned fund balances) before using unassigned fund balances.

Unassigned fund balance - amounts that are available for any purpose; these amounts can be reported only in the Town's General Fund.

Assigned fund balance - amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.

GOVERNMENTAL FUND BALANCES (Continued)

BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

JUNE 30, 2011

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. As of June 30, 2011, \$6,155,414 of the Town's deposits were exposed to custodial credit risk. These amounts were not covered by the Federal Deposit Insurance Corporation (FDIC) but were collateralized with securities held by the pledging financial institution's trust department, not in the Town's name.

The Town follows the State of Maryland laws related to types of deposits and investments, selection of depositors, and collateral requirements. The Annotated Code of Maryland requires that the risk of loss of a deposit in the event of the default of a financial institution, deposits with financial institutions be fully collateralized. Full collateralization is necessary to minimize the risk of loss of a deposit in the event of the default of a financial institution.

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

JUNE 30, 2011

NOTES TO FINANCIAL STATEMENTS

TOWN OF BERLIN, MARYLAND

CAPITAL ASSETS (Continued)

JUNE 30, 2011

NOTES TO FINANCIAL STATEMENTS

TOWN OF BERLIN, MARYLAND

	Balances	Increases	Decreases	Balances
General Obligation bonds	\$ 1,245,607	\$ 828,530	\$ 76,943	\$ 1,997,194
Governmental Activities:				
Begining Ending				

Changes in long-term obligations for the year June 30, 2011 are as follows:

LONG-TERM DBT

The increase in the amount due to the general fund the sewer fund was for the purchase of property for the spray site. This amount was repaid in August, 2011.

Due to the general fund from the grants fund	\$ 1,835,573
Due to the general fund the sewer fund	\$ 1,827,518
Due to the general fund from the sewer fund	\$ 8,055
Balances	\$ 1,835,573
June 30, 2010 (Decrease)	

Balances due to/from other funds at June 30, 2011 consist of the following:

INTERNAL BALANCES

General Government	\$ 105,964
Public Safety	44,378
Public Works	219,321
Planning and Community Development	2,214
Recreation and Parks	49,475
	\$ 421,352
Balances	
June 30, 2010 (Decrease)	

Depreciation expense of governmental activities was charged to functions as follows:

Phase II of the spray irrigation project is estimated to cost \$5,600,000 and is being funded by a loan and grant from the Maryland Department of the Environment and a CDBG grant of \$600,000. As of June 30, 2011, costs of \$350,000 have been incurred and are included in construction in progress.

Phase I of the spray irrigation project is estimated to cost \$3,500,000. This project is being funded by a U.S. Department of Agriculture loan (\$2,462,000) and grant (\$1,037,350) and a \$650 contribution from the Town. As of June 30, 2011, total construction costs of \$717,754 have been incurred and are included in construction in progress in the sewer fund. In addition, \$1,700,000 of the funding was used for the purchase of land for the spray site.

Treatment plant. The project is estimated to cost \$16 million and is being funded by a \$6 million contribution from the Town. The Maryland Department of the Environment, a \$700,000 CDBG grant, and a \$2 million grant from the Maryland Department of Agriculture, a \$5.8 million U.S. Department of Agriculture loan, and a \$1.5 million grant from the Maryland Department of Agriculture grant, a \$1.5 million contribution from the Town, and a \$2 million contribution from the sewer fund.

CAPITAL ASSETS (Continued)

JUNE 30, 2011

NOTES TO FINANCIAL STATEMENTS

TOWN OF BERLIN, MARYLAND

General obligation bonds of 1998 payable to the Maryland Department of Housing and Community Development. The original obligations are dated August 10, 1998 in the amount of \$1,150,000. Debt is amortized from 5 to 20 years at interest rates ranging from 3.75% to 5.20%. Interest and principal is due semi-annually, with annual payments ranging from \$9,442 to \$125,798 through May 1, 2018.	\$ 40,000
Public improvement bonds of 2002 payable to the U.S. Department of Agriculture. The original obligations are dated September 26, 2002 in the amount of \$163,655. Debt is amortized over 40 years at an interest rate of 4.75%. Interest and principal is due quarterly, with payments ranging from \$362 to \$1,206 through September 26, 2042.	148,664
Bond anticipation note payable to the bank for the street improvement project, not to exceed \$1,700,000. The original obligation is dated November 1, 2009, interest at 4.07% is due quarterly. The maturity date is November 1, 2024.	980,000

Notes payable and general obligation bonds consist of the following:

Governmental Activities

Business-type Activities:							
		Balancing Decreases	Increases	Balancing Decreases	Increases	Balancing Decreases	Balancing Decreases
Electricity							
General obligation bonds	\$ 7,731,493			\$ 446,464		\$ 7,285,029	
Water							
General obligation bonds	302,290			9,849		292,441	
Sewer							
General obligation bonds	6,840,936			6,163,810		10,072,834	
General obligation bonds	9,395,708			\$ 6,620,123		\$ 17,650,304	
	\$ 14,874,719			\$ 9,395,708		\$ 14,874,719	

LONG-TERM DEBT (Continued)

JUNE 30, 2011

NOTES TO FINANCIAL STATEMENTS

TOWN OF BERLIN, MARYLAND

<u>Governmental Activities (Continued)</u>		<u>Business-type Activities</u>	<u>Electric Fund</u>
Municipal bond payable to E & C Development, Inc. for the purchase of land for a new police department in the amount of \$372,298. The original obligation is dated August 30, 2010. Interest at 4.9% is due monthly. The maturity date is August 30, 2015.	\$372,298		
Municipal bond payable to an individual for the purchase of land for a new police department in the amount of \$456,232. The original obligation is dated August 30, 2010. Interest at 5.9% is due monthly. The maturity date is August 30, 2015.	\$456,232		
Principle Balance Outstanding at June 30, 2011	\$1,997,194		
General obligation bonds of 1988 payable to the Maryland Department of Housing and Community Development. The original obligations are dated January 1, 1988 in the amount of \$2,040,000. Debt is amortized over 30 years at an interest rate of 4.75%. Interest and principal is due semi-annually with total annual payments ranging from \$187,718 to \$189,568.	\$962,000	The maturity date is May 1, 2018.	
General obligation bonds of 1998 payable to the Maryland Department of Housing and Community Development. The original obligations are dated August 10, 1998 in the amount of \$2,410,000. Debt is amortized over 30 years at interest rates ranging from 3.75% to 5.20%. Interest and principal is due semi-annually with total annual payments ranging from \$110,698 to \$169,432. The maturity date is May 1, 2028.	\$1,850,000		

LONG-TERM DEBT (Continued)

JUNE 30, 2011

NOTES TO FINANCIAL STATEMENTSTOWN OF BERLIN, MARYLAND

		Total Electric Fund
	7,285,029	
685,200		range from May 1, 2015 to May 1, 2027.
		total annual payments ranging from \$47,230 to \$97,980. The maturity dates interest rate of \$4,125%. Interest and principal is due semi-annually with 2007 in the amount of \$944,200. Debt is amortized from 8 to 20 years at an obligation bonds for 1995. The original obligation is dated November 14, of Community Development. This obligation was used to refinance general Infrastructure financing bonds of 2007 payable to the Maryland Department service costs.
1,998,023		currently earns interest at 2.00%, which is applied against the debt \$575,977 of the \$3,000,000 has not been drawn. The undrawn portion \$186,214 to \$200,334 through May 1, 2034. As of June 30, 2011, principal is due semi-annually, with total annual payments ranging from years at interest rates ranging from 2.00% to 4.875%. Interest and April 22, 2004, in the amount of \$3,000,000. Debt is amortized over 30 of Housing and Community Development. The original obligation is dated Infrastructure financing bonds of 2004 payable to the Maryland Department 283,106
		\$1,400 to \$4,665. The maturity date is September 26, 2042. 4.75%. Principal and interest is due quarterly with payments ranging from amount of \$311,654. Debt is amortized over 40 years at an interest rate of Agriculture. The original obligations are dated September 26, 2002 in the Public improvements bonds of 2002 payable to the U.S. Department of \$130,331. The maturity dates range from May 1, 2014 to May 1, 2029.
1,506,700		is due semi-annually with total annual payments ranging from \$8,654 to 30 years at interest rates ranging from 4.13% to 5.00%. Interest and principal March 24, 1999 in the amount of \$2,055,000. Debt is amortized over 15 to Housing and Community Development. The original obligations are dated General obligation bonds of 1999 payable to the Maryland Department of June 30, 2011
Principal Balance	Outstanding at	Business-type Activities (Continued) Electric Fund (Continued)

LONG-TERM DEBT (Continued)

Business-type Activities (Continued)
Electric Fund (Continued)

JUNE 30, 2011

NOTES TO FINANCIAL STATEMENTS

TOWN OF BERTIN, MARYLAND

Water Fund	
292,441	Total Water Fund
52,449	\$93,787. The maturity date is May 1, 2027.
33,545	is due semi-annually with total annual payments ranging from \$90,970 to years at interest rates ranging from 3.50% to 4.25%. Interest and principal payments are amortized over 20 years.
133,529	November 14, 2007 in the amount of \$68,853. Debt is amortized over 20 years at interest rates ranging from 3.50% to 4.25%. Interest and principal payments are amortized over 20 years.
72,918	Infrastructure financing bonds of 2007 payable to the Maryland Department of Housing and Community Development. This obligation was used to refinance general obligation bonds of 1997. The original obligation is dated November 14, 2007 in the amount of \$68,853. Debt is amortized over 20 years at interest rates ranging from 3.50% to 4.25%. Interest and principal payments are amortized over 20 years.
June 30, 2011	General obligation bond of 1980 to the U.S. Department of Agriculture. The original obligation is dated August 3, 1981 in the amount of \$154,000. Debt is amortized over 40 years at an average interest rate of 5.00%. Interest and principal is due semi-annually with total annual payments of \$4,546. The maturity date is August 3, 2021.
Principle Balance	General obligation bond of 1980 to the U.S. Department of Agriculture. The original obligation is dated August 3, 1981 in the amount of \$154,000. Debt is amortized over 40 years at an average interest rate of 5.00%. Interest and principal is due semi-annually with total annual payments of \$4,546. The maturity date is August 3, 2021.
Oustanding at	General obligation bond of 2000 to the U.S. Department of Agriculture. The original obligation is dated September 7, 2000, in the amount of \$150,000. Debt is amortized over 40 years at an average interest rate of 5.13%. Interest and principal is due quarterly, with total annual payments of \$8,844. The maturity date is September 7, 2040.
June 30, 2011	Public improvement bonds of 2002 payable to the U.S. Department of Agriculture. The original obligation is dated September 26, 2002 in the amount of \$36,928. Debt is amortized over 40 years at an interest rate of 4.75%. Interest and principal is due quarterly, with total annual payments of \$82 to \$272. The maturity date is September 26, 2042.
33,545	Infrastructure financing bonds of 2007 payable to the Maryland Department of Housing and Community Development. This obligation was used to refinance general obligation bonds of 1997. The original obligation is dated November 14, 2007 in the amount of \$68,853. Debt is amortized over 20 years at interest rates ranging from 3.50% to 4.25%. Interest and principal payments are amortized over 20 years.
52,449	\$93,787. The maturity date is May 1, 2027.
292,441	Total Water Fund

LONG-TERM DEBT (Continued)

Business-type Activities (Continued)

JUNE 30, 2011

NOTES TO FINANCIAL STATEMENTS

TOWN OF BERLIN, MARYLAND

1,020,351	<p>\$90,970 to \$93,787. The maturity date is May 1, 2027.</p> <p>Principal is due semi-annually with total annual payments ranging from over 20 years at interest rates ranging from 3.50% to 4.25%. Interest and dated November 14, 2007 in the amount of \$1,185,347. Debt is amortized refinance general obligation bonds of 1997. The original obligation was of Housing and Community Development. The obligation was used to Infrastructure financing bonds of 2007 payable to the Maryland Department</p>
109,847	<p>from \$267 to \$891. The maturity date is September 26, 2042.</p> <p>Interest and principal is due quarterly with payments ranging from 4.75%. Interest and principal is due quarterly with payments ranging amount of \$120,919. Debt is amortized over 40 years at an interest rate of 4.75%. Principal obligations are dated September 26, 2002 in the Agriculture. The original obligation is dated August 19, 2002 in the amount of \$2,350,800. Debt is amortized over 40 years at an interest rate of 4.50%.</p> <p>Public improvements bonds of 2002 payable to the U.S. Department of</p>
1,909,495	<p>maturity date is August 19, 2036.</p> <p>Interest and principal is due quarterly with total payments of \$31,747. The interest and principal is due quarterly with payments of \$31,747.</p> <p>General obligation bonds of 1996 payable to the U.S. Department of</p>
595,000	<p>is May 1, 2021.</p> <p>annually with payments ranging from \$82,828 to \$87,929. The maturity date and average interest rate of 4.80%. Interest and principal is due semi-annually with interest rate of 4.80%. Interest and principal is due semi- July 1, 1991 in the amount of \$1,048,700. Debt is amortized over 30 years Housing and Community Development. The original obligation is dated July 1, 1991 in the amount of \$1,048,700. Debt is amortized over 30 years</p>
June 30, 2011	<p>General obligation bond of 1991 payable to the Maryland Department of</p>

Business-type Activities (Continued)

LONG-TERM DEBT (Continued)

JUNE 30, 2011

NOTES TO FINANCIAL STATEMENTS

TOWN OF BERTIN, MARYLAND

<u>Business-type Activities (Continued)</u>		<u>Sewer Fund (Continued)</u>
Principal Balance	June 30, 2011	
Outstanding at		
Real property acquisition bond payable to an individual. This obligation is being used to finance the purchase of real property for use in the spray irrigation project. The original obligation is dated December 15, 2010 in the amount of \$500,000. Debt is amortized over 25 years at an interest rate of 8.422%. Interest and principal is due monthly with payments in the amount of \$4,045. The maturity date is January 15, 2036.		
496,728		
Bond payable to the U.S. Department of Agriculture. This obligation was used to fund the Lagoon liner and wastewater treatment plan projects. The original obligation is dated November 16, 2010 in the amount of \$5,988,000. Interest and principal is due in semi-annual payments of \$113,952 at an interest rate of 2.25%. The maturity date is November 2050.		
5,941,413		
10,072,834		Total Sewer Fund
\$ 17,650,304		Total long-term debt - Business-type Activities

JUNE 30, 2011

NOTES TO FINANCIAL STATEMENTS

TOWN OF BERLIN, MARYLAND

LONG-TERM DEBT (Continued)

Business-Type Activities	Totals	Interest	Principal	Year Ending
2012	\$ 636,606	\$ 744,672	\$ 1,381,278	
2013	661,730	719,620	1,381,350	
2014	701,900	687,791	1,389,691	
2015	711,005	656,820	1,367,825	
2016	697,596	625,335	1,322,931	
2017 - 2021	3,487,965	2,627,559	6,115,424	
2022 - 2026	3,393,864	1,875,765	5,269,629	
2027 - 2031	3,393,831	1,847,538	5,269,629	
2032 - 2036	1,603,330	1,096,831	2,124,494	
2037 - 2041	1,039,551	521,164	2,124,423	
2042 - 2046	1,000,314	170,708	1,171,022	
2047 - 2051	965,836	54,889	1,020,725	
			\$ 17,650,304	\$ 10,080,577
				\$ 27,730,881

June 30, 2011 are as follows:
 Principal and interest requirements to amortize all Business-type Activities debt outstanding as of

Governmental Activities	Totals	Interest	Principal	Year Ending
2012	\$ 7,122	\$ 94,162	\$ 101,284	
2013	7,244	93,798	101,042	
2014	7,353	93,444	100,797	
2015	7,467	93,074	100,541	
2016	836,098	58,721	894,819	
2017 - 2021	29,907	231,732	261,639	
2022 - 2026	998,878	160,055	1,158,933	
2027 - 2031	23,907	21,929	45,836	
2032 - 2036	30,270	15,569	45,839	
2037 - 2041	38,346	7,495	45,841	
2042 - 2046	10,602	374	10,976	
		\$ 870,353	\$ 1,997,194	\$ 2,867,547

improvements bonds as of June 30, 2011 are as follows:
 Principal and interest requirements to amortize the note and the general obligation and public

Debt Service Requirements

LONG-TERM DEBT (Continued)

JUNE 30, 2011

NOTES TO FINANCIAL STATEMENTS

TOWN OF BERLIN, MARYLAND

		Total minimum lease payments to be received
		\$ 823,350
All subsequent years		
2016	585,900	
2015	47,490	
2014	47,490	
2013	47,490	
2012	\$ 47,490	
		Total Payment
		Year Ending June 30.

Future lease payment terms to be received are:

The Town entered into a lease with the Berlin Chamber of Commerce for ninety-nine years ending on March 24, 2110 for rental of property. Monthly payments of \$458 are due through May 31, 2031. Thereafter, the tenant will pay \$1 per year for the remainder of the lease agreement. Total lease payments received during the year were \$458.

Wireless PCs, LLC, for the use of the Town's water tower for wireless antennas and transmission lines. Monthly payments are due in advance by the 5th of the month. In 2011, additional antennas were added, increasing the annual payment to \$42,000. Total lease payments received for the year ended June 30, 2011 were \$40,250.

At the end of fiscal year 2003, the Town entered into a 25-year lease agreement with AT&T

LEASE AGREEMENTS

Service Type	Water	Sewer	Electric	General Fund	Capital Fund	Administrative services	\$ 280,411	\$ 80,206	\$ 150,206	\$ 510,823

The Town provides administrative services to the proprietary funds for certain services paid in the general fund. Also, a payment in lieu of taxes of \$125,000 is charged to the Electric Fund. The total services billed for the year ended June 30, 2011 were as follows:

INTERNAL CHARGES AND SERVICES

Where applicable, the Town follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. During the year ended June 30, 2011, total interest incurred and paid in the Enterprise Fund was \$706,861. Of this amount, \$94,839 was included in construction in progress and \$612,022 was charged to operations.

INTEREST COST - ENTERPRISE FUND

JUNE 30, 2011

NOTES TO FINANCIAL STATEMENTS

TOWN OF BERLIN, MARYLAND

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Town maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this coverage in any of the past three fiscal years.

RISK MANAGEMENT

Fiscal Year	As a Whole Percentage of Employer Annual Pension	Employee Annual Pension	Annual Pension Cost	Net Pension Contribution	Costs Contributed	Endded Obligation
June 30, 2009	\$ 214,210	100%	\$ 250,600	100%	\$ 349,938	\$ 100%
June 30, 2010						-0-
June 30, 2011						-0-

The State Personnel and Pensions Article requires active members to contribute to the State System at the rate of 4%, 5% or 7% of their covered salary depending upon the retirement option selected. The Town is required to contribute at an actuarially determined rate. The three year contribution information for the Town is as follows:

Funding Policy

Certain employees of the Town are covered by the Pension System for Employees of the Maryland State Retirement and Pension System of the State of Maryland. These systems are part of the Maryland State Retirement and Pension System (the State System), and are cost-sharing multiple-employer public employee retirement systems. The State System provides pension, death and disability benefits to plan members and beneficiaries. The plan is administered by the State Retirement Agency (the Agency). Responsibility for the administration and operation of the State System is vested in a 12-member Board of Trustees. The State System was established by the State Personnel Board of Maryland. Article of the Amended Code of Maryland. The Agency issued a publicly available financial report that includes basic financial statements and required supplementary information for the State System by the State Retirement and Pension System for the State System. The report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 Baltimore Street, Baltimore, Maryland 21202, or by calling 410-625-5555. The Town contributes to the State Retirement and Pension Systems of Maryland ("systems"), a multiple-employer public employee retirement system that acts as a common investment and cost-sharing agent for State employees, teachers, judges, legislators and employers of participating municipalities within the State of Maryland.

Plan Description

State Retirement and Pension Systems of Maryland

RETIREMENT AND PENSION PLANS

JUNE 30, 2011

NOTES TO FINANCIAL STATEMENTS

TOWN OF BERLIN, MARYLAND

The Town is the recipient of various federal and state grants. The Town may be under obligation to repay these grant funds if, upon final review by the responsible granting agencies, the funds expended did not meet the established program objectives. The Town is not aware of any repayment requests.

COMMITMENTS AND CONTINGENCIES

The Town offers certain employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The deferred amounts are invested in various annuity contracts. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights purchased with those amounts, and all income attributable to the plan's assets are not reported on the statement of net assets of the Town.

DEFERRED COMPENSATION PLAN

JUNE 30, 2011

NOTES TO FINANCIAL STATEMENTS

TOWN OF BERLIN, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

	Budgeted Amounts	Actual	Favorable (Unfavorable)	Original	Final	Amounts (Unfavorable)	Revenue
Taxes	\$ 3,158,000	\$ 3,158,000	\$ 3,459,781	\$ 301,781			
Licenses and permits	129,687	129,687	177,090	47,403			
Intergovernmental revenues	560,967	560,967	1,004,045	443,078			
Service charges	569,600	569,600	537,728	(31,872)			
Impact fees	4,000	4,000	2,355	(22,645)			
Earnings on investments	25,000	25,000	21,877	21,877			
Miscellaneous	4,443,254	4,443,254	5,206,876	763,622			
Current							
General government	1,283,106	1,283,106	1,088,468	194,638			
Public safety	1,844,416	1,844,416	1,841,985	2,431			
Planning and economic development	794,836	794,836	737,773	57,063			
Recreation and parks	61,300	61,300	34,639	26,661			
Debt service	126,364	126,364	163,998	161,167			
Capital outlay	38,700	38,700	867,230	1,593,603			
Total expenditures	4,443,254	4,443,254	5,309,418	5,781,529			
Excess of expenditures over revenues	(866,164)	(866,164)	(574,653)	291,511			
Other financing sources	(37,634)	(37,634)	(37,634)				
Prior year surpluses			828,530	828,530			
Proceeds from issuance of long term debt			866,164	866,164			
Total other financing sources			(37,634)	(37,634)			
Net change in fund balance				\$ 253,877			

YEAR ENDED JUNE 30, 2011

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF BERRIN, MARYLAND

SUPPLEMENTARY INFORMATION

CERTIFIED PUBLIC ACCOUNTANTS

P.K.S + Company, P.A.

The prior year summarized comparative information has been derived from the Town's 2010 financial statements and, in our report dated November 15, 2010, we expressed undifferentiated opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund activities, the business-type activities, each major fund, and the aggregate remaining fund.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Berlin, Maryland's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. This information is the responsibility of management and relates directly to the underlying accounting of financial statement items. The information has been subjected to the audit procedures applied in the audit of the financial statements and other records used to prepare the financial statements. The information has been subjected to the audit procedures including comparing records such as bank reconciliation directly to the underlying accounting themselves, and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the audit findings are fairly stated in all material respects in relation to the financial statements as a whole.

To the Mayor and Council
Town of Berlin, Maryland

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

ASSESSING THE QAP/SM SABROUSKAS AND TURKIN INDEX

Pigg, Krachl & Stern

PKF INTERNATIONAL
CERTIFIED PUBLIC ACCOUNTANTS

CERTIFIED PUBLIC ACCOUNTANTS
ALBERT AND ASSOCIATION OF

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Salisbury

JOHN M. STERN, JR., CPA
KEFFREY D. BRUITT, CPA

JEFFREY A. MICHALIK, CPA

SUSAN B. KEEN, CPA

W.D. Smith et al.

**SCHEDULES OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
GENERAL FUND**

TOWN OF BERLIN, MARYLAND

Revenues			
State of Maryland grant revenues	\$ 33,607	\$ 35,179	Total revenues
	33,607	35,179	
Expendeditures			
Salaries and related	19,354	17,291	Contract services
	19,354	17,291	Other expenses
	14,700	14,700	Total expendeditures
	2,200	3,741	
	36,254	35,732	
Net change in fund balance	\$ (2,647)	\$ (553)	

(WITH COMPARATIVE TOTALS FOR 2010)
YEAR ENDED JUNE 30, 2011

SCHEDULES OF REVENUES AND EXPENDITURES
SPECIAL REVENUE FUND

TOWN OF BERLIN, MARYLAND

(WITH COMPARATIVE TOTALS FOR 2010)

YEAR ENDED JUNE 30, 2011

SCHEDULES OF REVENUES AND EXPENSES

ELECTRIC FUND

TOWN OF BERLIN, MARYLAND

REVENUES	\$ 6,502,860	\$ 6,569,076	\$ 6,585,844	\$ 6,630,853	Total revenues
EXPENSES	3,510,383	3,649,059	6,22,115	666,512	Personnel expenses
SERVICE CHARGES	22,973	37,162	37,410	38,567	Sales and services
INTEREST ON DELINQUENT ACCOUNTS	38,567	37,410	8,412	237	Miscellaneous
TOTAL REVENUES	6,585,844	6,569,076	6,502,860	\$ 6,502,860	Total revenues
EXPENSES	3,510,383	3,649,059	6,22,115	666,512	Personnel expenses
INSURANCE	229,521	109,180	178,891	178,891	Contracted services
REPAIRS AND MAINTENANCE	26,758	20,465	20,465	20,465	Insurance
GENERAL OVERHEAD	17,931	6,478	6,478	6,478	Repairs and maintenance
DEPRECIATION AND AMORTIZATION	813,871	798,861	798,861	798,861	Depreciation and amortization
TOTAL EXPENSES	5,835,653	6,020,338	280,411	280,411	Total expenses
OPERATING INCOME	795,200	565,506	280,638	280,638	Operating income
NONOPERATING REVENUES (EXPENSES)	(428,670)	(400,915)	(7,166)	(7,166)	Nonoperating revenues (expenses)
NET NONOPERATING EXPENSES	(428,670)	(408,081)	(7,166)	(7,166)	Net nonoperating expenses
CHANGE IN NET ASSETS	\$ 366,530	\$ 157,425	\$ 157,425	\$ 157,425	Change in net assets

				Change in net assets
			\$ 1,238,224	
		\$ (3,632)		
				Capital contributions - special contribution fees
		42,038		Transfers in
		48,620		Loss before transfers and contributions
		1,373,119		Net nonoperating expenses
		(183,515)		Interest expense
		(45,670)		Interest income
		(9,536)		Nonoperating revenues (expenses)
		(17,998)		Operating loss
		(14,867)		Total expenses
		8,462		General overhead
		8,339		Depreciation and amortization
		(36,134)		Repairs and maintenance
		(176,987)		Insurance
		751,176		Contracted services
		672,188		Professional services
		80,206		Supplies and operating
		167,641		Personnel expenses
		140,479		Expenses
		17,676		
		9,046		
		2,634		
		14,167		
		8,356		
		2,529		
		121,352		
		136,647		
		294,820		
		343,351		
		574,189		
		636,054		
		42,157		Total revenues
		40,317		Miscellaneous
		6,293		Interest on delinquent accounts
		6,332		Sales and services
		8,589		Service charges
		517,150		Revenues
		582,548		
		2011		
		2010		

YEAR ENDED JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

TOWN OF BERLIN, MARYLAND
SCHEDULES OF REVENUES AND EXPENSES
WATER FUND

TOWN OF BERLIN, MARYLAND

				Changge in net assets
			\$ 3,840,794	\$ 313,267
				Capital contributions - special contribution fees
			116,479	82,838
			230,429	3,724,315
			925,931	(682,596)
			4,126,221	(178,558)
			(193,109)	2,992
			1,784,093	4,319,330
			(695,502)	Nonoperating revenues (expenses)
			(401,906)	Operating loss
			1,743,165	Total expenses
			150,319	General overhead
			867,743	Depreciation and amortization
			118,585	Repairs and maintenance
			16,689	Insurance
			73,235	Contracted services
			17,859	Professional services
			435	Supplies and operating
			268,110	Personnel expenses
			511,852	Expenses
			1,372,582	Total revenues
			1,341,259	Miscellaneous
			24,226	Interest on delinquent accounts
			12,826	Hauler fees
			101,081	Sales and services
			9,739	Service charges
		\$ 1,289,080	\$ 1,230,656	Revenues
	2011			

(WITH COMPARATIVE TOTALS FOR 2010)

YEAR ENDED JUNE 30, 2011

TOWN OF BERLIN, MARYLAND
SCHEDULES OF REVENUES AND EXPENSES
SEWER FUND

GOVERNMENT AUDITING STANDARDS REPORT

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over material weaknesses. We did not identify any deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. A significant deficiency is a material weakness, yet important enough to merit attention by those charged with governance.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a significant deficiency, or combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected on a timely basis.

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the financial reporting. Accordingly, we do not express an opinion on the internal control over financial reporting.

Internal Control over Financial Reporting

We have audited the financial statements of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Maryland ("the Town") as of and for the year ended June 30, 2011 which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

To the Mayor and Council
Town of Berlin, Maryland

INDEPENDEBT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

SCHEMATIC OF STOCHASTIC SUSPENSION REACTOR (CONT'D)

Piag, Krach & Stern
& Company, P.A.

ANDREW M. HAYNE, CPA	SUSAN R. KEEN, CPA	ATCHAEV, C., KLEEFER, CPA	FREYER A. MICHAEL, CPA	JU. M. O'CONNELL II, CPA	FEFFER D. PRUITT, CPA	JOHN M. STEINER, JR., CPA
1801 SWETTAWAY DRIVE	P.O. Box 72	SALISBURY, MD 21803	OCEAN CITY, MD 21842	3 OCEAN GATEWAY, UNIT #5	TELE: 410-213-7185 FAX: 410-213-7638	TELE: 410-546-5600 FAX: 410-548-9576
Salisbury						
1801 SWETTAWAY DRIVE	P.O. Box 72	SALISBURY, MD 21803	OCEAN CITY, MD 21842	3 OCEAN GATEWAY, UNIT #5	TELE: 410-213-7185 FAX: 410-213-7638	TELE: 410-546-5600 FAX: 410-548-9576
Lewes	Welles	13 SAVANNAH ROAD, SUITE 1	LWES, DE 19958	13 SAVANNAH ROAD, SUITE 1	TELE: 302-645-5757	FAX: 302-645-1757
American Institute of Accountants	Members of	AMERICAN INSTITUTE OF	AEREA	AMERICAN INSTITUTE OF	AEREA	AMERICAN INSTITUTE OF
Delaware Society of Accountants	Members Public Accountants	DELAWARE SOCIETY OF	DELAWARE SOCIETY OF	DELAWARE SOCIETY OF	DELAWARE SOCIETY OF	DELAWARE SOCIETY OF
PKF International						

October 24, 2011

CERTIFIED PUBLIC ACCOUNTANTS

PKS & Company, P.A.

This report is intended solely for the information and use of the Mayor and Council, management, others within the entity, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town's response and, accordingly, we express no opinion on it.

We noted certain other matters that we reported to the management of the Town of Berlin, Maryland in a separate letter dated October 24, 2011.

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express an opinion on the determination of financial statement amounts. Nevertheless, providing an opinion on such an opinion, The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

SINGLE AUDIT REPORTS AND SCHEDULES

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
INDEPENDENT AUDITORS' REPORT ON**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

INDEPENDENT AUDITORS' REPORT ON

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October 24, 2011

CERTIFIED PUBLIC ACCOUNTANTS

PKS & Company, P.A.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town of Berlin, Maryland's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements or to the underrlying accounting and other records used to prepare the financial statements themselves, and other records used additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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To the Mayor and Council
Town of Berlin, Maryland

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Federal Grantor/Pass-through Grantor	Program Title	Total	Award	Federal Expenditures
Pass-through Entity Identifier	Entity Identifier	Number	Number	Expenditures
U.S. Department of Housing and Urban Development	Pass through program from Maryland Department of Housing and Community Development	\$ 702,635	\$ 418,542	
Community Development Block Grants (State)	Administrator Small Cities Program			
U.S. Department of Agriculture	Water and waste disposal systems for rural communities (loan)	5,988,000	2,907,708	
ARRA 10.760	Water and waste disposal systems for rural communities (grant)	5,828,217	3,900,788	
ARRA 10.760	Water and waste disposal systems for rural communities (loan)	3,988,000	2,907,708	
ARRA 10.760	Water and waste disposal systems for rural communities (grant)	5,828,217	3,900,788	
10.760	Water and waste disposal systems for rural communities (loan)	2,462,000	2,132,822	
	Total U.S. Department of Agriculture	14,278,217	8,941,318	
	Total expenditures of federal awards	\$ 14,980,852	\$ 9,359,860	

FOR THE YEAR ENDED JUNE 30, 2011

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TOWN OF BERLIN, MARYLAND

For purposes of the schedule of expenditures of Federal awards, the value of Federal expenditures in the form of loans is calculated as the sum of the balance of loans from previous years for which the Federal Government imposes continuing compliance requirements plus the value of new loans received during the fiscal year.

LOANS

Pass-through entity identifying numbers are presented where available.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of Federal awards (the Schedule) includes the federal grant activity of the Town of Berlin, Maryland under programs of the federal government for the year ended June 30, 2011. The information presented in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Town.

BASIS OF PRESENTATION

JUNE 30, 2011

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TOWN OF BERLIN, MARYLAND

In our opinion, the Town compiled, in all material respects, with the major federal programs for the year ended June 30, 2011, requirements referred to above that could have a direct and material effect on each of its

compliance with the types of auditing standards applicable to financial audits conducted in the United States of America; the standards generally accepted in the United States of America; the standards contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we perform the audit to obtain reasonable assurance about whether we have a direct and material effect on a major federal program occurred. An audit includes examinations and performance such other procedures as we have considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town's compliance with those requirements.

We conducted our audit of government audited funds ("the Town") compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2011. The Town's major federal programs for the year ended June 30, 2011, are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-133**

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PKF INTERNATIONAL

October 24, 2011

CERTIFIED PUBLIC ACCOUNTANTS

PKS + Company, P.A.

This report is intended solely for the information and use of the Mayor and Council, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be used by anyone other than those specified parties.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over internal control that might be deficiencies, or material weaknesses. We did not identify any deficiencies in compliance that might be deficiencies, or material weaknesses, as defined above.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not follow management's normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance that requires a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance federal program on a timely basis.

Internal Control over Compliance
Management of the Town is responsible for establishing and maintaining effective internal control over compliance with laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance with OMB Circular A-133, but not for the purpose of internal control over compliance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over compliance.

There were no findings relative to the federal award programs reported for the year ended June 30, 2010.

JUNE 30, 2011

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

TOWN OF BERLIN, MARYLAND

Cause – Management does not have internal controls over the preparation of the financial statements in accordance with generally accepted accounting principles (GAAP).

Effect – There is a danger that intentional or unintentional errors could be made and not detected.

With generally accepted accounting principles (GAAP). The financial statements are reviewed and approved by management prior to their issuance. In addition, management relies on the auditor to perform certain tasks such as the calculation of accrued liabilities, update of depreciation schedules, and the posting of approved adjusting entries to the trial balance.

Condition – Management relies on the auditor to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). The financial statements are reviewed and approved by management prior to their issuance. In addition, management relies on the auditor to perform certain tasks such as the calculation of accrued liabilities, update of depreciation schedules, and the posting of approved adjusting entries to the trial balance.

Criteria – Controls should be in place to detect, prevent, or correct misstatements in the Town's draft financial statements.

SIGNIFICANT DEFICIENCIES

FINDINGS-FINANCIAL STATEMENTS AUDIT

- 7. The Town of Berlin, Maryland did not qualify as a low-risk auditee.
- 6. The threshold for distinguishing Types A and B programs was \$300,000.

- | | |
|--------|--|
| 14.228 | Community Development Block Grants (State-Administered - Small Cities Program) |
| 10.760 | Water and Waste Disposal Systems for Rural Communities |

- 5. The programs tested as major programs included:

- 4. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-

- 3. The auditor's report on compliance for the major federal awards programs for the Town of Berlin, Maryland expresses an unqualified opinion on all major federal programs.

- 3. No instances of noncompliance material to the financial statements of the Town of Berlin, Maryland, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

- 2. One significant deficiency disclosed during the audit of the financial statements is reported in this schedule.

- 1. The auditor's report expressed an unqualified opinion on the financial statements of the Town of Berlin, Maryland.

Summary of Audit Results

YEAR ENDED JUNE 30, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

TOWN OF BERLIN, MARYLAND

None

Findings and questioned costs - Major Federal Awards Programs Audit

Auditee's response and planned corrective action -- Management acknowledged the condition and financial statements in accordance with GAAP, and has determined that it is in the best interest of the Town to outsource this task to its independent auditors.

Recommendation - None.

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YEAR ENDED JUNE 30, 2011

(Continued)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

TOWN OF BERLIN, MARYLAND